

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**August 4, 2005**

**IN RE:**

**PETITION OF KENTUCKY UTILITIES  
COMPANY FOR AN ORDER AUTHORIZING  
THE ISSUANCE OF SECURITIES AND THE  
ASSUMPTION OF OBLIGATIONS**

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**DOCKET NO.  
05-00095**

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**ORDER APPROVING FINANCING TRANSACTIONS**

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This matter came before Chairman Pat Miller, Director Deborah Taylor Tate and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on June 13, 2005 for consideration of the *Petition* of Kentucky Utilities Company ("KUC") for an order, pursuant to Tenn. Code Ann. § 65-4-109 (2004), authorizing the issuance of securities and the assumption of obligations.

**Petition**

KUC is an electric utility primarily serving customers in Kentucky and Virginia, with only five customers in the state of Tennessee. In its *Petition*, filed with the TRA on April 4, 2005, KUC requested approval from the TRA to obtain long-term (secured or unsecured) debt financing from Fidelity Corporation ("Fidelity") in an amount not to exceed \$125,000,000 during the 2005 calendar year. The Company anticipates using fixed rate notes to Fidelity with final maturities of between two and twelve years. The current expectation is to issue Notes totaling \$50,000,000 in connection with refunding the external debt during June 2005. The remaining \$75,000,000 would be issued in December 2005 to replace maturing debt with Fidelity.

KUC plans to borrow the money from Fidelia, an indirect finance subsidiary of E.ON, KUC's parent company. KUC indicated that it will not borrow from Fidelia unless the interest rate on the loan will be equal to or lower than the cost of borrowing that KUC could obtain from E.ON or in the capital markets on its own. KUC refers to this as the Best Rate Method, which it states will assure that it will not pay more for a loan from an affiliate than it would pay in the capital markets for a similar loan. According to KUC, this reduction in debt cost would allow KUC to control and minimize interest costs to its customers.

The Kentucky Public Service Commission approved this financing transaction by an order dated May 10, 2005 in Case No. 2005-00117.

#### **Statutory Framework**

Tenn. Code Ann. § 65-4-109 (2004) provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue, maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

#### **June 13, 2005 Authority Conference**

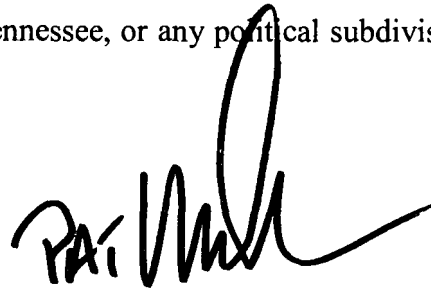
At a regularly scheduled Authority Conference held on June 13, 2005, the panel voted unanimously to approve the *Petition* upon a finding that the proposed transaction will be made for proper purpose and in accordance with Tennessee laws.

#### **IT IS THEREFORE ORDERED THAT:**

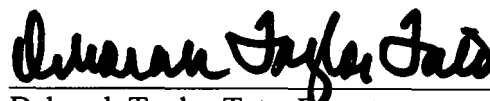
1. Kentucky Utilities Company is authorized to issue and deliver secured or unsecured Notes in an aggregate principal amount not to exceed \$125,000,000 during the 2005 calendar year in the manner set forth in its *Petition*.

2. Kentucky Utilities Company is authorized to execute, deliver and perform the obligations of Kentucky Utilities Company under, inter alia, the Loan and Security agreement and/ or the Loan Agreement with Fidelity Corporation, the Notes, and such other agreements and documents as set out in its *Petition*, and to perform the transactions contemplated by such agreements.

3. The authorization and approval given hereby shall not be used by any party, including, but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk involved to a purchaser of any Kentucky Utilities Company securities. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof for the transaction approved herein.

A handwritten signature in black ink, appearing to read "Pat Miller", written over a horizontal line.

Pat Miller, Chairman

A handwritten signature in black ink, appearing to read "Deborah Taylor Tate", written over a horizontal line.

Deborah Taylor Tate, Director

A handwritten signature in black ink, appearing to read "Sara Kyle", written over a horizontal line.

Sara Kyle, Director